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CIS/PCCRIU/3475
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Case ID #:

Title: CONTRACT FRAUD AND HURRICANE KATRINA

Synopsis: This electronic communication (EC) provides recipients with a summary of an analytical review, captioned as above, prepared by the Criminal Investigative Division (CID), Criminal Intelligence Section (CIS), Public Corruption/Civil Rights Intelligence Unit (PCCRIU).

Enclosure(s): Analytical review dated 07/20/2006, captioned "Contract Fraud and Hurricane Katrina."

Details: The captioned analytical review is provided to FBI Houston, Jackson, Mobile, and New Orleans with background information on contract fraud taking place after Hurricane Katrina devastated the Gulf Coast on 29 August 2005. Due to the massive destruction in the wake of Katrina, the government had the enormous responsibility of awarding contracts for temporary housing and clean-up duties. The government's response to Katrina depended heavily on contractors.

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<i>Value</i>						
1	2	3	4	5	NA	The product contributed to satisfying intelligence gaps or predicated cases or intelligence operations, especially in previously unknown areas.
1	2	3	4	5	NA	The product resulted in a change in investigative or intelligence priorities and/or a shift from unaddressed to addressed work, or vice versa.
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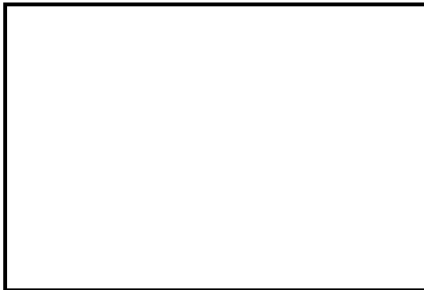
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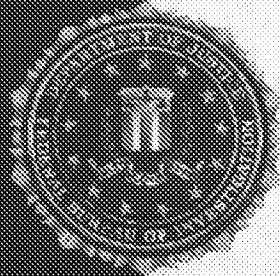
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Criminal Investigative Division
Criminal Intelligence Section

(U) CONTRACT FRAUD AND HURRICANE KATRINA

25 July 2006



(U) Contract Fraud and Hurricane Katrina

SCOPE	4
KEY JUDGMENTS.....	4
INTRODUCTION.....	6
SECTION ONE: BACKGROUND	6
Money Wasted	6
Price Disparity	7
Re-Bidding.....	7
SECTION TWO: DEBRIS REMOVAL CONTRACTS	8
Monetary Issues	8
Harrison County, Mississippi	9
Old Gentilly Landfill.....	9
SECTION THREE: HOUSING CONTRACTS	10
Carnival Cruise Lines	11
Manufactured Homes in Hope, Arkansas	11
SECTION FOUR: FRAUDULENT CONTRACTS.....	11
Nepotism.....	11
Classrooms.....	12
SECTION FIVE: OPERATION BLUE ROOF	12
SECTION SIX: SUBCONTRACTING & PYRAMID SCHEMES	14
Temporary Housing	14
At the Top: Prime Contractors.....	15
In the Middle: Tier 1-2 Subcontractors.....	15
At the Bottom: Tier 3-4 Subcontractors.....	15
Operation Blue Roof.....	16
Money Wasted	16
Katrina v. Iraq Contract Problems	17
SECTION SEVEN: POLITICAL CONTRIBUTIONS AND THE AWARDED OF CONTRACTS	17
Louisiana Legislature.....	17
Jefferson Parish, Louisiana.....	19
Iraq Contractors Connection.....	20
USACE Politically Connected Contracts.....	20
Ashbrite, Inc.	21
Circle B Enterprises	22

Akima Site Operations, LLC	22
Hiring Former Government Employees.....	23
SECTION EIGHT: LESSONS LEARNED	24
Competitive Contracting and Oversight	24
Clearbrook, LLC Billing Errors.....	24
Corporate Lodging Consultants, Inc.	25
Cruise Ships for Hurricane Katrina Evacuees	25
Mobile Homes and Modular Homes at Hope and Red River	25
Travel Trailers for Nursing Facilities	26
APPENDIX I	27



Analytical Review

25 July 2006

(U) Contract Fraud and Hurricane Katrina

SCOPE

Due to the massive destruction in the wake of Hurricane Katrina, the government undertook the responsibility of awarding contracts for temporary housing and clean-up duties. To complete these contractual responsibilities, federal agencies relied increasingly on contractors to carry out specific aspects of their missions. The government's response to Hurricane Katrina depended heavily on contractors to deliver ice, water, and food supplies, as well as the effort to patch rooftops and supply temporary housing to displaced residents and evacuees. This review examines the fraud associated with contracts awarded to companies and individuals as a direct result of Hurricane Katrina's massive destruction.

KEY JUDGMENTS

- According to a Government Accountability Office (GAO) report released in March 2006, the GAO found significant problems in its general review of the 13 Federal Emergency Management Agency (FEMA) contracts, most of which were awarded without a full competition.
- Hurricane Katrina-related contracts indicate considerable price disparities, to include travel trailers costing \$15,000 to \$23,000; housing inspection services that documents suggest could cost \$15 to \$81 per home; and ferries and ships used for temporary housing that cost \$13 million to \$70 million for six months.
- A 2006 Hurricane Katrina report by Democrats on the House Government Reform Committee discovered troubling instances of over-billing on the part of contractors who hauled away storm debris. Contractors have overstated mileage traveled to get additional fees, mixed debris improperly to get more money, and billed twice for doing the same work.
- The government overpaid by 20 percent on a \$39.5 million, no-bid Hurricane Katrina contract for portable classrooms awarded by the US Army Corps of Engineers (USACE). An April 2006 GAO audit revealed that due to the USACE's rush to get classrooms after Hurricane Katrina made landfall, they wasted at least \$7.8 million by failing to seek a lower price after Akima Site Operations, LLC, suddenly raised its price one day after submitting a lower initial estimate.

- *Knight Ridder* news service reported in September 2005 that there was a lack of oversight of Operation Blue Roof, an enormous temporary roofing project, along with generous contracting deals and poor planning. Government agencies paid as much as 10 times the normal cost for temporary repairs. ✓
- Ten of the companies that secured the largest Hurricane Katrina-related contracts had a government connection. Most of the companies that currently hold contracts greater than or equal to \$170 million, which are not up for re-bidding, have completed previous work for the government, relative to previous hurricane clean-ups or in Iraq.
- Fifteen members of the Louisiana Legislature and their relatives reported earning money from government hurricane-relief contracts, including one contract exceeding \$105 million awarded to a St. Charles Parish company owned by the family of a member of the Louisiana House of Representatives. Combined, the other 14 members of the legislature and their relatives disclosed that they earned or could potentially earn \$1.7 million in state and federal contracts awarded after Hurricanes Katrina and Rita.

INTRODUCTION

Hurricane Katrina and the subsequent sustained flooding of New Orleans exposed significant flaws in federal, state, and local preparedness for catastrophic events and the country's capacity to respond to them. More than six months after Hurricane Katrina made landfall, the Gulf Coast is recovering, but there are many flaws in the contractual process where corruption and fraud are imbedded.

SECTION ONE: BACKGROUND

In a February 2006 press release, the Bush Administration vocalized its commitment to spending taxpayers' money responsibly with regard to Hurricane Katrina. To ensure taxpayer dollars are spent wisely and honestly, President Bush requested \$13.5 million for federal agency Inspectors General (IG) to investigate and audit recovery activities and \$9.7 million to prosecute fraud. This was in addition to the \$15 million Congress previously appropriated to the Department of Homeland Security (DHS) IG to guard against waste, fraud, and abuse.¹

Money Wasted

Taxpayer dollars will be spent for many years on Hurricane Katrina response and recovery, while investigations of corruption and mismanagement are still in their early stages.

As of March 2006, approximately \$88 billion in federal aid was approved for relief, recovery, and rebuilding, with an additional \$20 billion requested to support ongoing recovery efforts of the Department of Housing and Urban Development, US Army Corps of Engineers (USACE), Federal Emergency Management Agency (FEMA), and other federal government agencies.²

In an early 2006 House of Representatives report on Hurricane Katrina, the House determined that poor planning for emergency supplies, such as food and ice, contributed to the waste and abuse in federal contracts. The report also identified that FEMA's failure to negotiate contracts in advance led to chaos and the potential for waste and fraud due to last-minute agreements for emergency assistance.³

According to a Government Accountability Office (GAO) report released in March 2006, the GAO praised government agencies for their "hard work" in securing contracts after the disaster, but implied that millions could have been saved if they had adopted previous

¹ "Fact Sheet President Bush Requests \$19.8 Billion for Hurricane Recovery," Office of the Press Secretary, 02/16/2005

² "Fact Sheet: Gulf Coast Update. Hurricane Relief, Recovery, and Rebuilding Continues," www.whitehouse.gov, 03/08/2006

³ "Highlights from the House report on Hurricane Katrina," www.sunherald.com, 02/14/2006.

GAO recommendations to hire more people, prearrange contracts, and improve staff training. They also found significant problems in its general review of the 13 contracts, most of which were awarded without a full competition.

Among the GAO's findings:

- Non-existent communication with local officials led to misjudgments on the need for temporary housing, which included \$3 million that FEMA spent for 4,000 base camp beds that were never used and \$10 million to renovate and furnish 240 rooms in Alabama that housed only six occupants before it was closed.
- FEMA had only 17 of the 27 monitors it deemed necessary to oversee the installation of temporary housing in four states, leading to inadequate controls.⁴

Price Disparity

DHS IG Richard Skinner indicated in September 2005 that bills have been received for deals that were apparently agreed upon with only a handshake and no supporting documentation.

With regard to housing, Hurricane Katrina-related contracts indicate considerable price disparities, to include travel trailers costing \$15,000 to \$23,000; housing inspection services that documents suggest could cost \$15 to \$81 per home; and ferries and ships used for temporary housing that cost \$13 million to \$70 million for six months.⁵

A number of industry and government officials have also questioned the costs of the debris-removal contracts, indicating that the USACE paid inflated rates.

Re-Bidding

In the October 2005 weekly spending report to Congress, DHS detailed 73 contracts awarded on the basis of "other than full and open competition." Most of these contracts provided travel trailers, communication systems, and food from the Disaster Relief Fund, managed by FEMA.

During the week of 9-15 October 2005 FEMA Acting Director R. David Paulison told the Senate that all of the no-bid contracts would be re-bid. Later that same day, FEMA officials stated that only the following four contracts worth up to \$100 million each would be re-bid: Bechtel Corporation, Fluor Corporation, The Shaw Group, and CH2M Hill. All four contracts were approved before Hurricane Katrina hit the Gulf Coast.

According to FEMA, many of the contracts that were previously awarded without competition were completed or beyond the point where it would be economically feasible

⁴ "GAO Millions wasted in award of Katrina contracts," *USA Today*, 03/16/2006

⁵ "Waste, Abuse and Mismanagement Suspected Among Some FEMA Katrina Response Contracts," by David Mark, 09/26/2005

to re-compete, and contracts were awarded quickly to save lives and protect property. As of 10 October 2005 no-bid and limited contracts comprised 15 percent of all hurricane relief contracts.⁶

SECTION TWO: DEBRIS REMOVAL CONTRACTS

As of March 2006, roughly 80 percent of the non-demolition debris, totaling more than 80 million cubic yards (the same amount of debris removed after the 11 September 2001 terrorist attacks and Hurricane Andrew combined) has been removed.

The prices for debris removal, handled by the USACE, are hard to evaluate. The government has refused to release the proposals received before open-ended contracts were awarded to four large prime contractors—Ashbritt, Phillips and Jordan, ECC, and Ceres Environmental. In addition, the proposals do not necessarily reflect the actual prices paid. Rather, each time a job is assigned, for example, the removal of debris from a defined neighborhood, the USACE negotiates a price for the specific task, using the original proposal as a starting point.⁷

Monetary Issues

A 2006 Hurricane Katrina report published by Democrats on the House Government Reform Committee discovered troubling instances of over-billing on the part of contractors who hauled away storm debris. Contractors have overstated mileage traveled in order to get additional fees, mixed debris improperly to get more money, and billed twice for doing the same work, the report revealed.

Representative Tom Davis (R-Virginia) stated that Congress approved \$63 billion for disaster relief in June 2006, but that the cost could potentially exceed \$200 billion. Representative Davis stated that the USACE “bent over backward” to give contractors more money. Supporting his claim are government auditors, who have used phrases like “overly generous” and “consistently on the high side” when explaining how the USACE dealt with Hurricane Katrina-related contracts.

The House report is not the first time the USACE has been criticized for wasteful practices in the Katrina recovery. The organization has been chastised by auditing agencies for awarding contracts that involved multiple layers of subcontractors, which drove up the cost of debris removal and temporary roof repairs. For example, a contractor who testified before the committee noted that his company received \$23 per

⁶ “FEMA Maintains Limited-Competition Deals,” *The Washington Post*, 10/14/2005

⁷ “From blue tarps to debris removal, layers of contractors drive up the cost of recovery, critics say Top-tier contractors say it's the only way to get the work done,” *The Times-Picayune*, by Gordon Russell and James Varney, 12/29/2005

cubic yard to remove debris but only paid \$10 to a subcontractor who did all of the work.⁸

Harrison County, Mississippi

On 28 May 2006, the State of Mississippi indicated its withholding of nearly \$17 million in federal reimbursement money from its most populous coastal county, Harrison County, while authorities probe a "multitude of discrepancies" in bills that contractors submitted for Hurricane Katrina debris removal.

A May 2006 internal FEMA report faulted county officials for paying the contractors more than \$10 million without ensuring the work's quality or accuracy. When FEMA officials inspected more than a dozen of the roads where contractors performed the work, it was determined that the majority of the trees they cut were not eligible for reimbursement. Many were too small, or inspectors could not find stumps to match them.

The county hired TCB Construction, based in nearby Pearl River County, to handle the removal of trees and signed a contract with another company, Beck Disaster Recovery, to monitor the project. ✓

FEMA debris specialists notified the county on three occasions that the contractors were "not performing their jobs properly resulting in ineligible limbs and trees being cut and billed." A February 2006 FEMA report stated that the county "took inadequate steps to correct the problem." FEMA's report also determined that the agency found a "multitude of discrepancies" and a "high number of variances" in the project's invoices and other paperwork, including duplicate entries.

Mississippi has not reimbursed Harrison County since 25 April 2006. Harrison County, which contains Gulfport and Biloxi, is eligible to receive up to \$54.5 million in federal funding for all Katrina projects, including debris removal. The state is withholding approximately \$16.8 million of that money, most of which is for debris removal.

FEMA's report also criticized the county for using a noncompetitive bid process to award the contracts for tree removal. Instead of soliciting bids publicly or advertising the job, a county employee contacted six companies by telephone and two of them submitted bids.⁹

Old Gentilly Landfill

Directly correlated to debris removal are the dump sites where the debris is disposed. Old Gentilly Landfill (OGL) was shut down after federal regulators identified it as a possible hazardous waste site nearly a quarter century ago. Louisiana taxpayers have paid millions of dollars to clean the potentially hazardous landfill since that time. ✓

⁸ "EDITORIAL Corps values," *The Times Picayune*, 06/06/2006

⁹ "Katrina Money Withheld Until Audit," CBS News, 05/28/2006.

OGL was reopened after Katrina struck the Gulf Coast and it was designated as a disposal site for "clean waste" from construction and demolition operations. The major issue with OGL is that it is unlined, creating the possibility that toxic liquids squeezed from the buried garbage can seep into the soil.

The City of New Orleans, which owns the OGL and pays two private companies to operate it, has been trying for two years to reopen OGL. Even though there are two newer landfills nearby that are better equipped to handle all of the debris, OGL was reopened to accumulate the debris left by Hurricane Katrina.¹⁰

The two contractors who operate the OGL are Durr Heavy Construction, a partner in the joint venture AMID Metro Partnership LLC, and Metro Disposal.

Durr Heavy Construction of Harahan, Louisiana, served as general contractor for mobile home sites in Louisiana. They are also subcontracting for debris removal from Ceres Environmental and Phillips & Jordan. Durr has also donated \$5,000 to [REDACTED] political campaigns.¹¹

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[REDACTED] is also [REDACTED] a leading beneficiary of local programs for Disadvantaged Business Enterprises (DBEs). The company has qualified for the DBE programs because [REDACTED] of stock in the firm, although regulators have questioned whether [REDACTED]

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Metro Disposal, of Harvey, Louisiana, whose [REDACTED] has long held part of the city's residential trash pickup contract reserved for minority firms.¹²

[REDACTED] was questioned in 2004 in connection with an FBI investigation of alleged corruption in the administration of [REDACTED] [REDACTED] was a silent partner on a contract with the OGL contract involving [REDACTED]

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SECTION THREE: HOUSING CONTRACTS

Billions of dollars have been allocated to contractors across the country to assist with the damage left behind in Hurricane Katrina's wake. More specifically, hundreds of millions of those dollars have been awarded to contractors for temporary housing.

¹⁰ "Hurricane Bends Landfill Rules," By Manuel Roig-Franzia, *The Washington Post*, 10/30/2005

¹¹ "Jefferson Parish OKs Katrina Contracts," *The Times-Picayune*, 10/6/2005

¹² "Landfill's reopening is raising new stink, Gentilly site has environmental problems, say senators, others," *The Times-Picayune*, by Gordon Russell, 11/21/2005

Carnival Cruise Lines

In September 2005, Carnival Cruise Lines (CCL) received a six-month, \$236 million contract with FEMA to provide temporary housing aboard three of their ships—the Ecstasy, the Sensation, and the Holiday. When the contract was broken down, \$192 million went toward boat services and the remaining \$44 million was for reimbursable expenses (port charges, fuel, food, and so forth.)

When the contract price was closely scrutinized, the price per evacuee, with each ship at its full capacity, was \$1,275 per week. A one-week vacation on these same cruise line ships costs an average of \$599 per person, based on full capacity calculations. None of the ships had nearly the number of people FEMA had expected.

The contract, after a one-day competition, received bids from 13 ships. Only four of the ships, three of which were owned by CCL, met FEMA's requirements of full meal service, maid service, medical care, and so forth. The contract was given to CCL by Captain [redacted] of the US Navy Sealift Command.¹³

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b7CManufactured Homes in Hope, Arkansas

USA TODAY reported on 14 February 2006 that FEMA allowed nearly 11,000 unused, manufactured homes to deteriorate on old runways and open fields in Hope, Arkansas, while FEMA spent \$416,000 per person to house a few hundred Hurricane Katrina evacuees for a short time in Alabama during the fall of 2005.

In April 2006 the Senate Homeland Security Committee examined alleged FEMA housing improprieties in Hope where auditors determined that the manufactured homes cost approximately \$301.7 million.¹⁴

SECTION FOUR: FRAUDULENT CONTRACTS

In addition to housing and debris removal contracts, there were other contracts awarded that possibly involved fraud.

Nepotism

On 20 October 2005, *The Times-Picayune* reported that [redacted] steered two post-Katrina, no-bid contracts to relatives and collected nearly \$10,000 in back pay for himself. The two contracts were provided to [redacted] and [redacted] is a [redacted] who received the contract for leased office space he owned. [redacted] newly formed company (post-Katrina), Marine Recovery Salvage, LLC, was given the

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¹³ "\$236 Million Cruise Ship Deal Criticized," *The Washington Post*, 09/28/2005

¹⁴ "Audit. Government overpaid \$7.8 million on Katrina contract," by Hope Yen, 04/20/2006

authority by [] to coordinate the salvage of boats damaged or destroyed by Hurricane Katrina at the Levee Board's two marinas. [] claimed that both contracts were awarded under emergency conditions.

[] legal counsel, in the midst of the devastation by Hurricane Katrina, concluded that he was entitled to \$96,000 in unpaid compensation for his overtime work as the [] dating back to 19 June 1996.¹⁵

Classrooms

The government overpaid by 20 percent on a \$39.5 million, no-bid Hurricane Katrina contract for portable classrooms awarded by the USACE. An April 2006 GAO audit revealed that due to the USACE's rush to get classrooms after Katrina made landfall, they wasted at least \$7.8 million by failing to seek a lower price after Akima Site Operations, LLC, suddenly raised its price one day after submitting a lower initial estimate. The USACE justified the price increase with the need for quick delivery of the classrooms in Mississippi, even though freight costs were roughly the same in both proposals. Additionally, the USACE failed to ask basic questions about pricing.

The USACE accepted Akima's proposed price of \$39.5 million, even though they had information that the cost for the classrooms was significantly less than what Akima charged. The GAO deemed that the USACE could have, but failed to, negotiate a lower price. At the same time, Akima Management Services defended the deal as fair given the extraordinary circumstances following the hurricane.¹⁶

SECTION FIVE: OPERATION BLUE ROOF

Following Hurricane Katrina, several thousand blue tarps were nailed to wind-damaged roofs. It was one of the largest roofing projects in the United States history. In September 2005, *Knight Ridder* news service reported a lack of oversight with Operation Blue Roof, along with generous contracting deals and poor planning. Government agencies paid as much as 10 times what the temporary fix would normally cost. The government was paying contractors an average of \$2,480 for less than two hours of work to cover each damaged roof. In addition to the contractor cost, the government was giving the contractors endless supplies of blue sheeting at no cost.

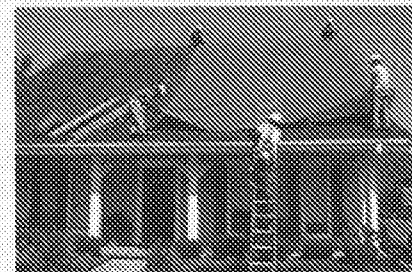


Figure1 Operation Blue Roof

¹⁵ "Levee Chief Draws Scrutiny," *The Times-Picayune*, 10/20/2005.

¹⁶ "Audit: Government overpaid \$7.8 million on Katrina contract," By Hope Yen, 04/20/2006.

The amount the government paid to tack down blue tarps, which were designed to last three months, raises major questions about the waste of taxpayer money as contractors vie for billions of dollars in repair and reconstruction contracts.

In September 2005, Simon Roofing and Sheet Metal of Youngstown, Ohio, was awarded an initial \$10 million contract to begin Operation Blue Roof in New Orleans. Company executives acknowledged that the price they charged to install blue tarps would pay for shingling an entire roof, which would have been impossible at the time because of the loss of most houses' infrastructure.

Simon Roofing, Shaw Group, and LJC Construction were the government's three prime blue-roof contractors in Louisiana.

In October 2005 [REDACTED] a spokesman for the USACE, highlighted that the USACE strictly followed the government contracting requirements and did everything possible to receive the best deal possible for roofing work given the magnitude of the task and the need to protect vulnerable homes as quickly as possible.

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An estimator with Pioneer Roof Systems in Austin, Texas, revealed that even with an astronomical overhead, the Operation Blue Roof companies would have plenty of room to make a profit. Under normal circumstances, Pioneer charged \$300 to tarp a 2000-square-foot roof in Texas. For that same size job, the government paid \$2,980 to \$3,500, approximately 10 times more than the standard fee, not including additional administrative fees.

While government and company officials have defended the arrangements and indicated that they were competitively bid, the USACE's own contracts reveal the government did not always pay the same rate for a service. For example, the federal government paid Shaw Group 17 percent more for precisely the same work provided by LJC Construction.¹⁷

The government did not pay contractors per roof, but for every square foot of blue tarp the workers tacked down. The Shaw Group was paid the highest amount for installing the tarps—\$1.75 per square foot. Simon Roofing's contract listed their price at \$1.72 per square foot, and LJC Construction received \$1.49 per square foot.¹⁸

The cost to taxpayers to tack up a covering of blue vinyl is roughly the same, on a per-square-foot basis, as a homeowner would pay to install a basic asphalt-shingle roof. Yet the laborer performing all the work typically earns only a fraction of that. The cost is raised by layers of subcontractors that sometimes produce multiple layers of additional subcontractors, known in post-Hurricane Katrina parlance as a "fifth-tier sub."

¹⁷ "From blue tarps to debris removal, layers of contractors drive up the cost of recovery, critics say. Top-tier contractors say it's the only way to get the work done," *The Times-Picayune*, by Gordon Russell and James Varney, 12/29/2005.

¹⁸ "Fixing roofs on Gulf Coast proves costly for taxpayers," By Aaron C. Davis, Jay Root, and Seth Borenstein, 09/30/2005.

The arrangement is not unique to roofing. On almost any contract let by either the FEMA or the USACE, who together control most of the more than \$60 billion earmarked by Congress for hurricane aid, a similar system of tiering exists.¹⁹

SECTION SIX: SUBCONTRACTING & PYRAMID SCHEMES

The process of a prime contractor winning a contract for several hundred million dollars and farming the work out to various subcontractors is not as innocent as it may seem. A prime contractor hires a subcontractor, who hires a subcontractor, who hires a subcontractor, and so forth. This concept has been referred to as a pyramid scheme and can be easily identified in contracts awarded for temporary housing, debris removal, and temporary roofing.

Temporary Housing

Temporary housing is an area in which "contract nesting" proliferates. FEMA purchased trailers from brokers, who turned around and bumped up the price per unit by thousands of dollars. On the New Orleans housing inspection contract, the federal government paid Shaw Group nearly \$80 an hour for building inspectors who earn about a quarter of that amount. In other words, the individual actually performing all the work may be earning as little as \$1 per cubic yard of debris, although the prime contractor is billing 20 times that amount for the service.

Federal regulators and prime contractors defend the arrangements, stating that the big companies who land mammoth contracts furnish resources and oversight that smaller companies could not feasibly match. Officials at large contracting companies indicate that eliminating the middleman and hiring building inspectors or roofers directly would not work. Moreover, the emergency nature of the work, the need to bring in thousands of workers and truckloads of provisions in a hurry, drives up costs.²⁰

A USACE official indicated that these contracts are not typical, as is the case with sealed bids for a very specific job and a one-time, defined sum of money. These contracts are task-order contracts, which are defined as big contracts for a company's ability to perform multiple tasks.

See Figure 2 on page 15, which depicts the pyramid scheme layout. There may be as many as three additional layers of subcontractors in a typical contract arrangement.

¹⁹ "From blue tarps to debris removal, layers of contractors drive up the cost of recovery, critics say. Top-tier contractors say it's the only way to get the work done," *The Times-Picayune*, by Gordon Russell and James Varney, 12/29/2005.

²⁰ "From blue tarps to debris removal, layers of contractors drive up the cost of recovery, critics say. Top-tier contractors say it's the only way to get the work done," *The Times-Picayune*, by Gordon Russell and James Varney, 12/29/2005.

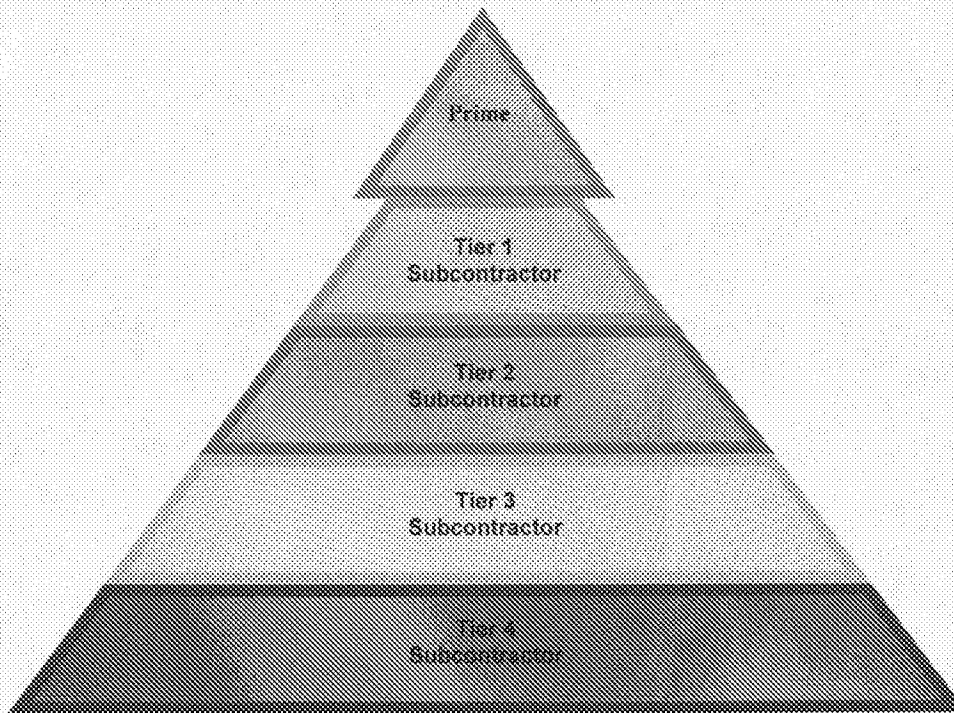


Figure 2 Subcontractor Pyramid

At the Top: Prime Contractors

The majority of contracts set forth a multitude of services the prime contractors must provide and regulations they must follow. A prime contractor is responsible for the overall management of the program, managing a multitude of subcontractors, and ultimately responsible for quality control.

In the Middle: Tier 1-2 Subcontractors

The roles of the various middle layers of subcontractors—the "top-tier subs" between big contractors and workers on the ground—is relatively unclear. These middle-tier companies can earn more than \$1,000 a day.

Some of these high-level subcontractors are well-established haulers with trucks on the streets, while some are mere fronts—companies that received contracts but do not have the assets to perform the job themselves.

At the Bottom: Tier 3-4 Subcontractors

Tier 3 and Tier 4 subcontractors are the actual companies performing the work. Even though they are doing all of the actual work, the employees receive the smallest pay. All levels of subcontractors, including the prime contractor, extract a "fee," leaving very little for the Tier 3 and 4 subcontractors.

[redacted] owner of a debris-hauling company from Minnesota, stated that his company has had trouble making ends meet as of September 2005, because of the company's place on the subcontractor food chain. However, [redacted] company is not at the very bottom, as they have a subcontractor for some of the work. [redacted] per-cubic-yard take ranges from \$5.50 to \$6.50, about one-third of what the top companies make. Factoring in the cost of his equipment, trucks, and other items worth \$300,000, the pay is not enough.

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Operation Blue Roof

[redacted] a subcontractor to Shaw Group on their Operation Blue Tarp contract (awarded in September 2005), indicated that Shaw Group paid A-1 \$75 for each square laid by subcontractors. Further down the subcontractor chain [redacted] is a subcontractor (Tier 2) to A-1, stated he received \$30-per-square for tarps that he and his subcontractors installed. In addition to [redacted] and [redacted] has subcontractors (Tier 3) who in some cases have subcontractors (Tier 4) themselves. Those at the bottom may earn as little as \$2 per square foot.

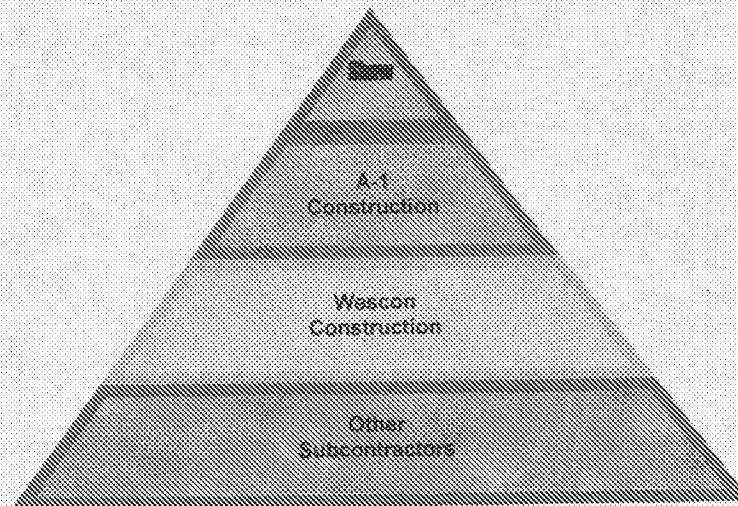
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Figure 3 Operation Blue Roof Contractors

Money Wasted

A fourth-tier subcontractor from Alabama stated that the amount of money that is wasted is astronomical. The subcontractor indicated that many of the companies above them do little for the money they get for the work of others. For example, if the fourth-tier subcontractor disposed of 5,000 cubic yards of debris per week, the prime contractor would enter 100 'skid tickets' (dumping receipts) for the fourth-tier subcontractor, costing the contractor an hour of labor. If it costs them \$25 per hour, they just earned \$50,000.

Officials from the federal government and prime contracting companies indicate that those companies that make such allegations do not fully understand the amount of oversight large contracting companies provide.²¹

Hurricane Katrina v Iraq Contract Problems

The layering of contracts in Iraq was a major impediment to auditors and investigators attempting to protect taxpayers from fraud. The lack of transparency in subcontracting, combined with the various procurement waivers, made it difficult to assess the abuses that occurred.

A vast majority of workers are being paid below a livable wage, yet no one seems to know how much contractors are being reimbursed for labor costs. On cost-plus contracts, subcontractor reimbursement rates are whatever the prime contractor determines and the actual rates paid are unknown. In fixed-bid contracts, actual reimbursement rates are also unknown, while subcontractor rates are both unknown and subject to fluctuation. The problem is that there is no ability to ascertain or monitor contractor-subcontractor relationships. This is an open invitation for exploitation, fraud, and abuse.²²

SECTION SEVEN: POLITICAL CONTRIBUTIONS AND THE AWARDING OF CONTRACTS

According to the *International Herald Tribune*, FEMA and other federal agencies deliver too much of the Hurricane Katrina-related work to giant corporations that have political connections, instead of local companies or perhaps even minority-owned businesses. It has been described as the “good old boy system,” taking care of political allies.²³

On 19 October 2005, *The Baltimore Sun* discussed FEMA-related government contracts and their links to political contributions. Ten of the companies that secured the largest Hurricane Katrina-related contracts had a government connection. Most of the companies that hold contracts greater than or equal to \$170 million, which are not up for re-bidding, have completed previous work for the government relative to previous hurricane clean-ups or in Iraq.

Louisiana Legislature

The Advocate newspaper reported on 31 December 2005 that 15 members of the Louisiana Legislature and their relatives reported earning money from government hurricane-relief contracts, with more than \$105.5 million funneled to a St. Charles Parish

²¹ “From blue tarps to debris removal, layers of contractors drive up the cost of recovery, critics say Top-tier contractors say it’s the only way to get the work done,” *The Times-Picayune*, by Gordon Russell and James Varney, 12/29/2005

²² “Disaster Profiteering, The Flood of Crony Contracting Following Hurricane Katrina,” By Charlie Cray, 09/2005-10/2005

²³ “Hurricane cleanup contracts under scrutiny,” *International Herald Tribune*, by 09/26/2005

company owned by the family of [REDACTED]
[REDACTED]

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The other 14 members of the legislature and their relatives disclosed that they earned or could potentially earn a total of \$1.7 million in state and federal contracts awarded after Hurricanes Katrina and Rita. Many of those contracts went to environmental cleanup, construction, and electrical firms owned or partially owned by lawmakers or their relatives.

[REDACTED] indicated that she received \$298,474 from the state agriculture department for reimbursements of fuel, and another \$275,106 from FEMA for the use of her LaPlace company's property, which was used as a staging area.

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[REDACTED] reported that approximately \$540,000 in government money for building materials went to a hardware store he partially owns.

The most profitable earner was the family of [REDACTED] whose [REDACTED] and other relatives made \$105.5 million when their company, Bourgets of the South, won contracts to sell trailers to FEMA. [REDACTED] and [REDACTED] and [REDACTED] who co-own the company, allegedly derived \$3.2 million each from the contracts. [REDACTED] supposedly received \$6,900 from the trailer sales. The company's lawyer indicated that [REDACTED] role as a state lawmaker had nothing to do with winning the contracts.

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Other state legislators and their relatives reporting hurricane contract earnings include:

- [REDACTED] indicated that the companies he partly owns made about \$75,000, mainly for contracts to clean up oil spills. [REDACTED] stated the company she owns with [REDACTED] made \$128,232 in contracts for truck and equipment rentals.
- [REDACTED] who owns a shipping container company, submitted an earnings form but the total dollar figure was illegible. [REDACTED] reported receiving \$136,000 for electrical work.
- [REDACTED] submitted a disclosure form reporting \$108,000 for rental of excavators and other heavy equipment. A second form indicated money earned for "debris shredding," but no dollar figure was disclosed.

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Local elected officials and their families reporting hurricane contract earnings included:

- [REDACTED] estimated that the waste disposal company he partially owns would

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likely earn more than \$2 million in post-Katrina government contracts in 2005.

- [redacted] reported that a company he partly owns won \$706,000 in contracts for electrical wiring of recreational vehicles at the New Orleans International Airport. ✓ b6 b7C
- [redacted] indicated that her medical company was awarded \$740,000 in contracts to provide nurses and other health workers. ✓ b6 b7C
- [redacted] implied that his construction firm won \$210,000 in contracts to clear debris from Bayou Terrebonne.²⁴ ✓ b6 b7C

Jefferson Parish, Louisiana

In Louisiana's Jefferson Parish, the majority of the contracts and clean-up work following Hurricane Katrina was awarded to companies and individuals who have contributed to [redacted] political campaigns. b6 b7C

Executives with Jefferson Parish claimed to have used a basic form of competitive bidding before awarding parish contracts, but officials placed phone calls to several companies to obtain verbal estimates before the contracts were opened for bidding. Shortly afterward, parish executives called an emergency meeting to approve and authorize payments that were previously sanctioned by [redacted] who has the authority to sign contracts in emergency situations. b6 b7C

Most of the work/contracts were given to companies that have donated generously to the campaigns of parish leaders. The following companies received contracts from Jefferson Parish and have contributed to the political campaigns of parish leaders:

- Jim Tatman's Mobile Homes of Lafayette, Louisiana, received an \$8.7 million contract to provide trailers for police officers, firefighters, and medical workers. ✓
- Certified Cleaning of Metairie, Louisiana, received a \$3.2 million contract to clean the Yenni Building. ✓
- Mechanical Construction of Metairie, Louisiana, received a second contract for \$310,000 to repair a cooling tower on the Yenni Building. [redacted] contributed \$2,000 to [redacted] most recent campaign. b6 b7C
- Shaw Environmental of Baton Rouge, Louisiana, a subsidiary of Shaw Group, was awarded a contract with the parish to coordinate all matters related to the

²⁴ "15 legislators, kin report hurricane income," *The Advocate*, by Doug Simpson, 12/31/2005

fallout of Hurricane Katrina. Shaw also generously contributed to [REDACTED] gubernatorial campaign.

- Boh Brothers Construction Company of Baton Rouge, Louisiana, received a contract to repair damaged water lines and contributed at least \$2,000 to [REDACTED] during his 2003 election.
- Cajun Construction of Baton Rouge, Louisiana, received a contract to repair damaged water lines as well as donated money to [REDACTED] campaign.
- Durr Heavy Construction of Harahan, Louisiana, served as general contractor for mobile home sites in Louisiana. They donated \$5,000 to [REDACTED]

Iraq Contractors Connection

Many members of Congress are concerned that the epidemic of fraud and other abuses witnessed in Iraq could be repeated in the aftermath of Hurricane Katrina. Congressional Progressive Caucus co-chair Representative Barbara Lee (D-California) charged that the Bush Administration awarded Hurricane Katrina contracts to politically well-connected firms. Nineteen members of the caucus demanded that the Bush Administration suspend Halliburton Company from any Katrina-related contracts based upon unresolved criminal investigations related to its prior work in Iraq. The US Army announced on 11 July 2006 that it was terminating Halliburton's reconstruction contracts in Iraq.²⁶

There are other factors to consider, including the USACE's unusually "cozy" relationship with Halliburton. Before Hurricane Katrina hit the Gulf Coast, the USACE demoted its top civilian contracting expert [REDACTED] who testified before Congress on 27 June 2005 regarding the abuse related to contracts awarded to Halliburton was the most blatant and improper contract abuse she had ever witnessed.

Meanwhile, the Bush Administration's [REDACTED] was himself indicted in September 2005, while he was working on Hurricane Katrina contracts, for obstructing an ongoing investigation into the activities of convicted Republican lobbyist [REDACTED]

USACE Politically Connected Contracts

The following companies all received lucrative USACE contracts, possibly due to their government connections. In fact, FEMA and the USACE stated that earlier contracts were awarded to those companies that were known to them to provide fast emergency service.

²⁵ "Jefferson Parish OKs Katrina Contracts," *The Times-Picayune*, 10/06/2005

²⁶ "Army Announces Termination of Halliburton Contracts," *The Washington Post*, 07/12/2006.

²⁷ "Disaster Profiteering, The Flood of Crony Contracting Following Hurricane Katrina," By Charlie Cray, 09/2005-10/2005

- Gulf Stream Coach, of Nappanee, Indiana, received a \$521.4 million contract to provide travel trailers. Since 2000 [redacted] and family have contributed more than \$20,000 to Republican Party candidates. ✓
- Landstar Express America, Inc., received a no-bid trucking services modification to an existing contract worth \$300 million. The company chairman's Political Action Committee (PAC) regularly contributed to the Republican Party. ✓
- A \$236 million rush-order contract was given to CCL for six months of temporary housing. The company and its executives contributed more than \$200,000 to both the Republican and the Democratic parties since 2000.
- A \$287.5 million FEMA contract awarded to Circle B Enterprises, Inc., based in Ocilla, Georgia, was given to provide temporary housing work for which the company was not properly licensed to do.²⁸ ✓

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Ashbritt, Inc.

Ashbritt, Inc., a Pompano Beach, Florida, company, spent many years cultivating its relationship with the federal government by contributing tens of thousands of dollars to the Republican Party. Ashbritt is also a client of the lobbying firm founded by [redacted] Ashbritt paid the firm Barbour Griffith & Rogers \$40,000 in the first half of 2005 for "assistance and guidance with regard to disaster mitigation issues," and, as of 19 October 2005, they were awarded the largest Hurricane Katrina-related contract (worth \$1.1 billion) from the USACE for debris removal.²⁹

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[redacted] hired former [redacted] on 1 September 2005 to work with Ashbritt on a USACE project. [redacted] stated that Ashbritt was dealing with contracting specialists on both the civilian and military sides of the USACE. They were working with the Defense Contract Audit Agency, along with small and minority business specialists. [redacted] indicated that Ashbritt needed the assistance of the specialists due to the amount of legal and protocol issues faced by the company.³⁰

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Ashbritt was hired on a contingency basis with the government in 2002 to clear roads and clean up property. The longstanding contract was activated when Hurricane Katrina struck the Gulf Coast, and Ashbritt was authorized to complete up to \$500 million in work, with an option for another \$500 million.

In late September 2005 [redacted] reserved a room on Capitol Hill for a "Katrina Reconstruction Summit," co-sponsored by Halliburton. [redacted] ✓

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²⁸ "Katrina Contracts go to Companies in Loop," *The Baltimore Sun*, 10/19/2005

²⁹ "No-bid storm contracts prompt warnings," by Jim Drinkard, 09/27/2005

³⁰ "Disaster Profiteering, The Flood of Crony Contracting Following Hurricane Katrina," by Charlie Cray, 09/2005-10/2005

[redacted] indicated that no one from his company attended [redacted] summit. While [redacted] and [redacted] have donated \$10,000 to [redacted] Senate campaign fund since 2000, he stated that knowledgeable individuals know that disaster contracts are secured long before the storms hit shore and have nothing to do with lobbying on the Hill or campaign contributions.³¹

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Ashbritt received their first subcontract from Kellogg, Brown, & Root (a Halliburton subsidiary) after Hurricane Andrew in 1992. The company employs top lobbyists, including [redacted] and the Barbour, Griffith and Rogers firm.

[redacted] says it would be naive to expect businesses to restrain themselves from hiring lobbyists who can help them navigate the maze of bureaucracy in Washington, DC.

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Circle B Enterprises

In addition to Halliburton, other companies with questionable backgrounds have benefited from the Bush Administration's policy. For example, Circle B Enterprises, received a \$287.5 million FEMA contract to supply temporary housing following Hurricane Katrina. The company's [redacted] a Georgia company called Sweetwater Homes, Inc., that residents disclosed constructed shoddy houses. Sweetwater went out of business in 2001, and when [redacted] applied for a building license from the state again in 2003, the state refused to grant it until he fixed old warranty claims. FEMA officials defend Circle B Enterprises based on successful work they did in Florida after the 2004 hurricanes.

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Akima Site Operations, LLC

Representative Bernie Thompson (D-Mississippi), the ranking Democrat on the House Committee on Homeland Security, was particularly critical of a \$40 million no-bid FEMA contract to provide classroom trailers that was awarded to Native American-owned, Alaska-based Akima. Akima's parent company, Nana, hired the lobbying firm Blank Rome, whose [redacted] was former DHS Secretary Tom Ridge's fundraiser when Ridge was the Governor of Pennsylvania. Nana's team of Blank Rome lobbyists also included key former congressional staff from both political parties.

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Akima officials indicate that Nana's lobbying and political operations played no role in the contract, but that assurance did not stop Thompson from demanding that DHS IG Joseph Skinner conduct an investigation. Thompson expressed concern that the government would award a contract to an Alaskan company that has never made or sold trailers before. Furthermore, the government purchased trailers for \$88,000 each from

³¹ "Disaster Profiteering, The Flood of Crony Contracting Following Hurricane Katrina," By Charlie Cray, 09/2005-10/2005

Akima, when it could have bought the same trailers from any other dealer for \$42,000 each.³²

Hiring Former Government Employees

It is difficult to determine the level of influence former USACE and FEMA employees have had in helping their clients and employers obtain big disaster relief contracts. No agency has compiled a comprehensive list of executives who have passed through the "revolving door" from government to the disaster contractors. Examples of government employees now working for Hurricane Katrina disaster contractors are as follows:

- [redacted] now runs the federal contracts subsidiary of HNTB, a Kansas City, Missouri, engineering company hired by Louisiana for emergency bridge repairs over Lake Pontchartrain. [redacted] brought in another USACE veteran at HNTB [redacted] who oversaw the USACE's civilian works program. ✓
- [redacted] who resigned under fire after being accused of interfering with the criminal investigations of other Bush Administration officials, joined Blackwater USA, a Moyock, North Carolina, private military company that was hired by FEMA to provide security for federal contractors in New Orleans. Blackwater has also been contracted to provide security services in Iraq. ✓
- [redacted] hired [redacted] to help the company lobby the USACE to let it scavenge scrap metal mixed with the tons of debris left in the wake of the hurricanes. ✓
- [redacted] helped AmeriCold, an Atlanta, Georgia, company, win a federal ice delivery contract worth up to \$85 million. [redacted] firm earned \$40,000 for arranging a meeting between FEMA and AmeriCold in the spring before the hurricane season began. ✓
- Just six months after heading up the Projects and Contracting Office in Baghdad which oversees multibillion-dollar reconstruction projects in Iraq, [redacted] was hired by a Baton Rouge company, Shaw Group, to oversee "all aspects" of a \$100 million contract with FEMA. Shaw was awarded a similar contract from the USACE.³³ ✓

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³² "Disaster Profiteering, The Flood of Crony Contracting Following Hurricane Katrina," By Charlie Cray, 09/2005-10/2005

³³ "Disaster Profiteering, The Flood of Crony Contracting Following Hurricane Katrina," By Charlie Cray, 09/2005-10/2005

SECTION EIGHT: LESSONS LEARNED

The President's Council on Integrity and Efficiency published a report on 30 April 2006, titled "Oversight of Gulf Coast Hurricane Recovery; A Semiannual Report to Congress." This report was the first of a series of semiannual reports on Gulf Coast hurricane recovery oversight. Below are a few of the summarized findings contained in the report.

Competitive Contracting and Oversight

Although expedited contracting is an acceptable practice immediately after a disaster, once the emergency period is over, it is reasonable to expect that the government may re-bid some contractual requirements in order to introduce competition into the process and ensure that the government is getting a fair price. This practice was not consistently followed in the post-Katrina environment.

The issue was raised in a number of congressional hearings and relates to the federal government's ability to make necessary purchases in response to a disaster in a timely manner and for a fair price, as well as plan effectively, contract, and subsequently monitor disaster contracts. There were many weaknesses observed in the federal government's pre-disaster planning and contract management efforts.

In its contracting reviews, the Offices of the Inspector General (OIG) noted problems with inadequate contract files. Often there is little or no information regarding the determination of "price reasonableness," specifications, and supervisory review.

Clearbrook, LLC Billing Errors

Clearbrook, LLC, provides food and base camp lodging services to disaster responders at seven base camps in Louisiana. As of 28 September 2005, Clearbrook received \$34 million of the \$80 million contract with FEMA.

Federal auditors identified several problems with the contract and Clearbrook's billings:

- The initial \$4.9 million payment was for work before the contract's effective date;
- Contractor billings were mathematically inaccurate, indicating more than \$3 million in overcharges;
- Billings were based on a time-and-materials plus fixed per diem rate, when the contract appeared to be an \$80 million fixed-price contract; and
- The contract had few terms, conditions, or prices; the scope of work contained no details, and there was a lack of documentation supporting price reasonableness.

Corporate Lodging Consultants, Inc

Following Hurricane Katrina, FEMA awarded a task order under a Basic Purchasing Agreement (BPA) with Corporate Lodging Consultants, Inc. (CLC), of Wichita, Kansas, for emergency lodging for evacuees. The task order was for thousands of rooms a night and, according to the BPA, CLC would be paid \$2.48 per room each night. Actual lodging costs were to be paid separately. ✓

Federal auditors examined whether FEMA used effective contract management processes to award and administer this task order. The BPA provided fixed rates per room night for CLC's services with lodging costs priced separately at cost, but it did not provide any mechanisms to control lodging costs. The task order contained an estimate of \$60 per room night; however, it was not a mandatory cap. A review of a sample of three invoices submitted by CLC indicated the average room rate for 126,000 rooms was nearly \$70, more than \$10 over the \$60 task order estimate.

Some room rates were excessive compared to the contract's estimated cost, but they were consistent with the hotel's published price. For example, CLC paid the Millennium Hilton in New York City its published rate of \$438 per night. The Panama City Beachfront Condominiums charged \$330 to \$375 per night for beachfront condominiums in Panama City, Florida. The Residence Inn in downtown Chicago charged up to \$399 per night. As late as 7 December 2005, FEMA was still paying relatively high prices, up to \$364 per night at the Hilton Gas Lamp Quarter in San Diego and up to \$339 per night at the Intercontinental in New Orleans.

Cruise Ships for Hurricane Katrina Evacuees

Federal auditors reviewed FEMA's leasing of four cruise ships to provide immediate housing for hurricane evacuees. As of November 2005, the weekly General Services Administration per diem rate per person was approximately \$1,282 in the New Orleans area and \$770 in Alabama and Mississippi. The average weekly cost per person on the cruise ships, at full occupancy, was \$1,177.

Using this analysis, the overall occupancy rate for the cruise ships would have to be more than 95 percent to be more cost effective than the per diem rates. During the first 30 days, when the average occupancy for the ships was approximately 35 percent, FEMA paid \$3,300 per evacuee per week—three times the average per diem rate. Subsequently, the average occupancy for the cruise ships ranged from 82 to 92 percent.

Mobile Homes and Modular Homes at Hope and Red River

Auditors reviewed FEMA's procedures for accepting and maintaining manufactured and modular homes staged at Hope, Arkansas, and the Red River Army Depot in Texarkana, Texas, to determine whether there were reasonable requirements for those units and to evaluate storage arrangements.

Minor damage to some units (incurred during delivery) was noted at Hope, while other homes were sinking in the mud from heavy rainfall. Frames of some larger units were beginning to warp from being stored on wheeled trailers without adequate support. FEMA did not have a plan for use of the homes prior to their purchase.

Travel Trailers for Nursing Facilities

Auditors reviewed an allegation that 16 travel trailers, provided by FEMA to a Louisiana nursing facility to house its workers, were not being used. The trailers were provided to Gulf South Medical Enterprise, which operates the Pontchartrain Guest House, a nursing facility in Mandeville, Louisiana. The trailers were to house staffs that were also Hurricane Katrina evacuees. Auditors determined that 15 vacant FEMA travel trailers located behind the Pontchartrain Guest House, not 16 as stated in the allegation, were not hooked up to power, water, or sewer sources, and had never been used.

APPENDIX I

The President's Council on Integrity and Efficiency (PCIE); Executive Council on Integrity and Efficiency (ECIE), published a report on 30 April 2006, "Oversight of Gulf Coast Hurricane Recovery; A Semiannual Report to Congress." This report was the first of a series of semiannual reports on Gulf Coast hurricane recovery oversight. Among the report's findings were:

- As of 31 March 2006, federal agencies issued a total of at least 6,665 contracts, totaling \$9.69 billion. DHS alone awarded 3,456 contracts worth about \$5.4 billion, of which 770 were worth \$500,000 or more, and more than half were awarded under full competition. The IGs have completed 246 contract reviews and have 289 reviews still in progress.
- FEMA's core mission is to respond to emergencies and procure emergency supplies and equipment—such as travel trailers, mobile homes, base camps, food, and ice—on a recurring basis. Planning for these procurements represents sound business practice for FEMA.
- In preparedness for future disasters, planning must include establishing standby or call contracts with vendors to provide essential goods and services required to facilitate immediate response operations or to meet the needs of disaster victims.
- Call contracts for ice, water, food, tarps, transportation, travel trailers, and other items commonly procured shortly after disasters strike should be in place and ready to execute on short notice. A call contract allows for costs, specifications, terms, and conditions to be negotiated in advance, negating the need for intensive contract negotiations during a crisis.
- The lack of the above pre-disaster planning process prior to Hurricane Katrina placed FEMA in an untenable position to hastily enter into contracts with little to no contract competition for disaster commodities.

FBI Customer Satisfaction SurveyReturn to: UC PC/CRIU, Room 3275, FBIHQb6
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<p>Marking Instructions: Circle the appropriate response accordingly.</p> <p>1 Strongly Disagree 2 Disagree 3 Neither Agree or Disagree 4 Agree 5 Strongly Agree NA - Not Applicable</p>	<p>Dear Customer:</p> <p>Please take a moment and complete this survey to help evaluate the quality and value of FBI products. Your response will help us to serve you more effectively and efficiently in the future.</p> <p>Thank you for cooperation and assistance.</p>
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Product Title Contract Fraud and Hurricane Katrina**Product Date** 25 July 2006**Customer** Criminal Investigative Division, FBI New Orleans, Mobile, Jackson, and Houston.**Intelligence Function/Investigative Program** Public Corruption

<i>Quality</i>						
1	2	3	4	5	NA	This product was delivered within established deadlines.
1	2	3	4	5	NA	The product was timely and relevant to your mission, programs, priorities or initiatives.
1	2	3	4	5		The product was clear and logical in the presentation of information with supported judgments and conclusions.
1	2	3	4	5		The product was reliable i.e., sources well documented and reputable.

To: Criminal Investigative From: Criminal Investigative
Re: 66F-HQ-A1307721-B , 07/25/2006

This review examines the fraud associated with contracts awarded to companies and individuals as a direct result of Hurricane Katrina's massive destruction, to include debris removal and housing contracts. The review also discusses the US Army Corps of Engineer's Operation Blue Roof, subcontracting and pyramid schemes, alleged links between political contributions and contract awards, and lessons learned.

Due to the emergency status imposed on the Gulf Coast after Hurricane Katrina made landfall, the normal contractual process and procedures were replaced with emergency procurement procedures. Even six months after the emergency status was changed, contracts were still awarded under emergency clauses, causing contract fraud to grow rampant. The goal of this review was to have the Public Corruption/Civil Rights Intelligence Unit (PC/CRIU), with the assistance of the Public Corruption/Government Fraud Unit (PC/GFU), create a document that encompassed an overview of the fraud within the contracts awarded in Louisiana, Mississippi, and Alabama since Katrina struck in August 2005.